**January 6, 2005**

# Monthly Mutual Fund Report

## Statistics for November - December 2005

### Sales and Redemptions

Total assets for all funds increased in November by $268.2 billion, or 3.2 percent, to $8.8 trillion. Money market funds had a net cash inflow of $30.3 billion compared to an inflow in October of $21.2 billion. Other funds (equity, hybrid, and bond) had a net cash inflow of $20.7 billion, compared to an inflow of $7.6 billion in October. New sales of non-money market funds, the purchase of new shares excluding reinvested dividends, were $128.5 billion in November, down from $133.6 billion in October. The value of non-money market assets appreciated by $188.3 billion in November, following a depreciation of $127.7 billion in October.

Total assets of **equity funds** decreased by $197.4 billion, or 4.2 percent, to $4.9 trillion. There was a $20.7 billion net cash inflow to equity funds in November, compared with an inflow of $6.5 billion in October. The market value of assets appreciated by $176.1 billion in November. Equity funds had an inflow of $125.5 billion year-to-date, compared to an inflow of $167.6 billion in the first eleven months of 2004.

Total assets for **hybrid funds**, which invest in a mix of stocks and bonds, increased 2.0 percent, or $11.0 billion, to $563.2 billion. In November, there was a $0.5 billion net cash inflow for these funds, compared to an inflow in October of $0.9 billion. Hybrid funds have experienced an inflow of $26.2 billion year-to-date, compared to an inflow of $40.7 billion during the same period in the previous year.

**Bond funds** experienced a cash outflow of $0.5 billion, while their total assets increased by $4.8 billion, to $1.3 trillion. The market value of bond funds assets increased by $2.0 billion, after adjusting for net sales and reinvested dividends. The assets of taxable bond funds increased by 0.5 percent, while the assets of tax-exempt bond funds remained at the same level. The 2005 inflow is $33.2 billion, compared to an outflow of $11.5 billion through November of 2004.

Assets of taxable and tax-exempt **money market funds** increased $54.9 billion, to $2.0 trillion, an increase of 3.0 percent for taxable money market funds and an increase of 1.9 percent for tax-exempt funds. The 2005 inflow is $16.2 billion, compared to an outflow of $148.5 billion for the first eleven months of 2004.

## Liquidity Ratio

The liquidity ratio for bond and hybrid funds remained at 6.0 percent in November, while the ratio for equity funds increased from 4.0 to 4.1 percent (figure 4).

## Weekly Flows

In December, there were outflows from equity funds of 0.2 percent of total assets, with losses of 3.3 percent (figure 6a). Bond funds had outflows of 0.01 percent and losses of 1.9 percent.

Index funds had monthly inflows of 0.2 percent and losses of 1.6 percent. Aggressive growth funds had outflows of 0.2 percent and losses of 3.2 percent. Small-cap funds had inflows of 1.6 percent and losses of 0.4 percent.

Technology funds had outflows of 1.4 percent and losses of 3.3 percent (figure 6b). There were inflows to real estate funds of 2.6 percent and gains of 1.4 percent.

There were inflows to international funds in December of 1.0 percent of assets and losses of 0.8 percent. Latin American funds had inflows of 1.0 percent and gains of 0.2 percent. Japan funds had inflows of 4.0 percent and returns of 7.6 percent. Pacific funds that do not invest in Japan had inflows of 1.4 percent and returns of 3.7 percent of assets. Emerging Markets funds had outflows of 1.7 percent and losses of 3.3 percent.

## Capital Market Returns and Volatility

The S&P 500 ended December 30 at 1248.3, a decrease of 1.3 percent from the beginning of the month. The 12-month gain was 4.9 percent at month-end. The annualized volatility for the daily return on the S&P 500 was 10.4 percent.

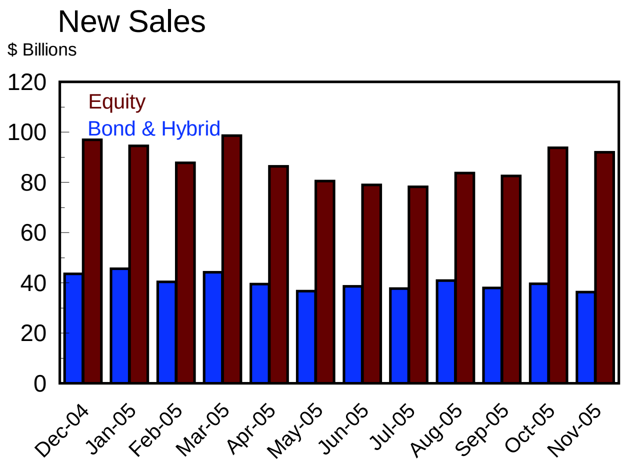
The 12-month average return on the Citigroup Bond Index was 2.6 percent for December. Volatility decreased from 3.3 percent in November to 3.2 percent in December (figure 8).

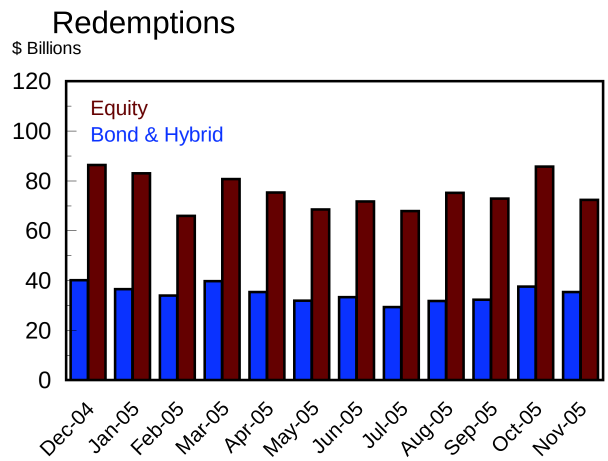
## Price-Earnings Ratio

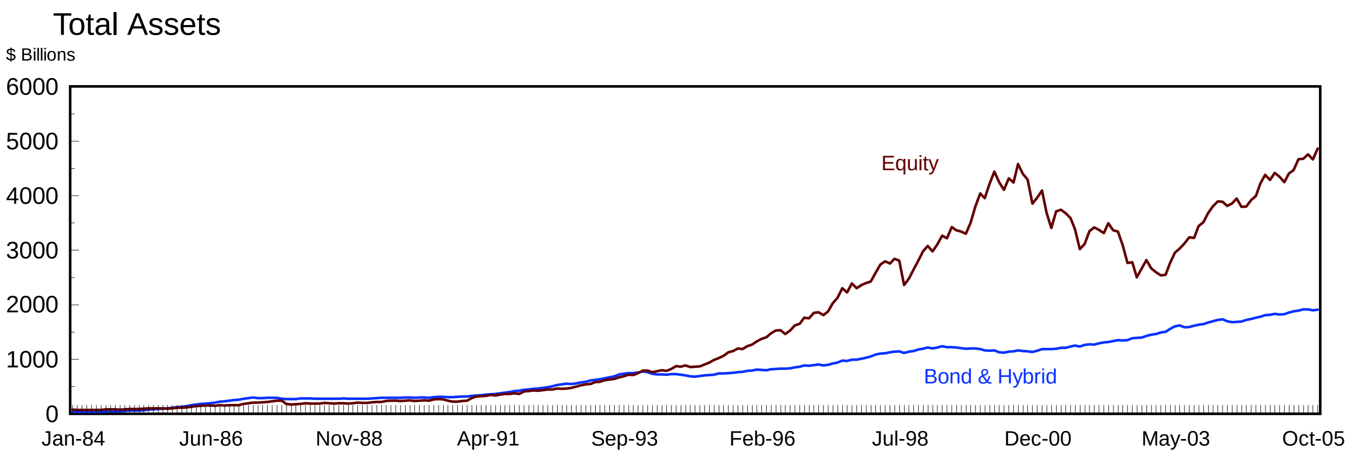
The macro projections for the growth of earnings of the Standard and Poor's 500 index over the next two years have been revised in the fourth quarter of 2005 to 5.3 percent from current levels. During the fourth quarter of 2005 the price-earnings ratio for the Standard and Poor's 500 Index fell to 17.9 from 18.4 while the price-earnings ratio for the Small-Cap 600 Index decreased to 20.6 from 22.3 (figure 9).

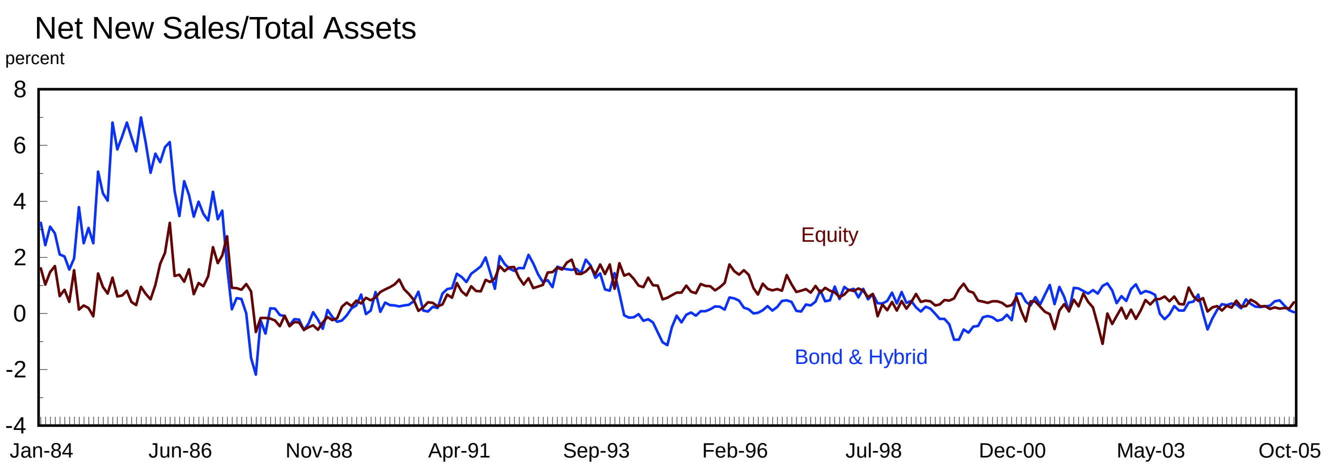
Please contact Maria Giduskova for questions and comments at Maria.Giduskova@bos. frb.org, or by phone at (617) 973-3198

Figure 1
**Sales of Mutual Funds**



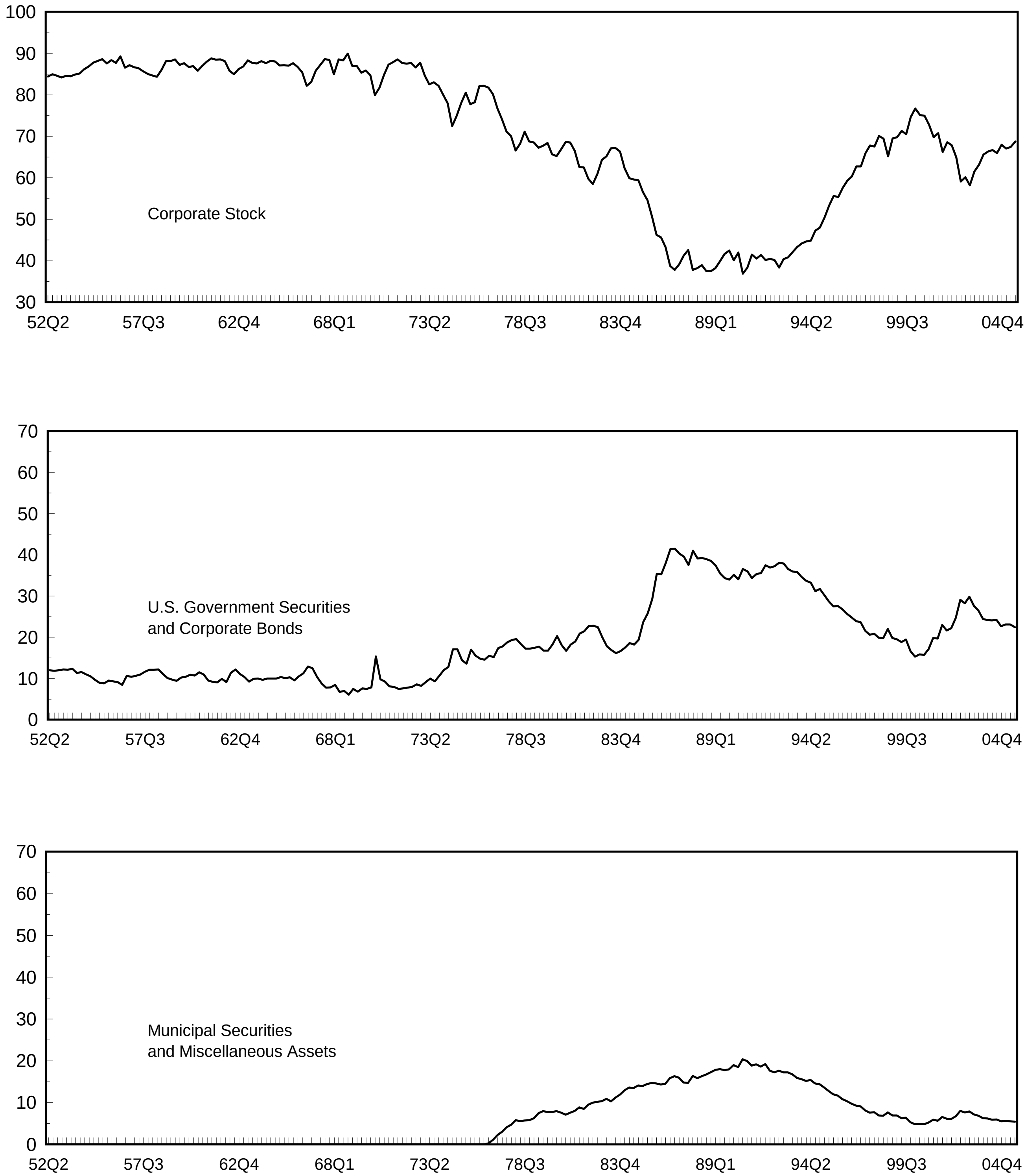




Source: Investment Company Institute

Figure 2
**Composition of Mutual Funds' Financial Assets**
(percent of Total Financial Assets)

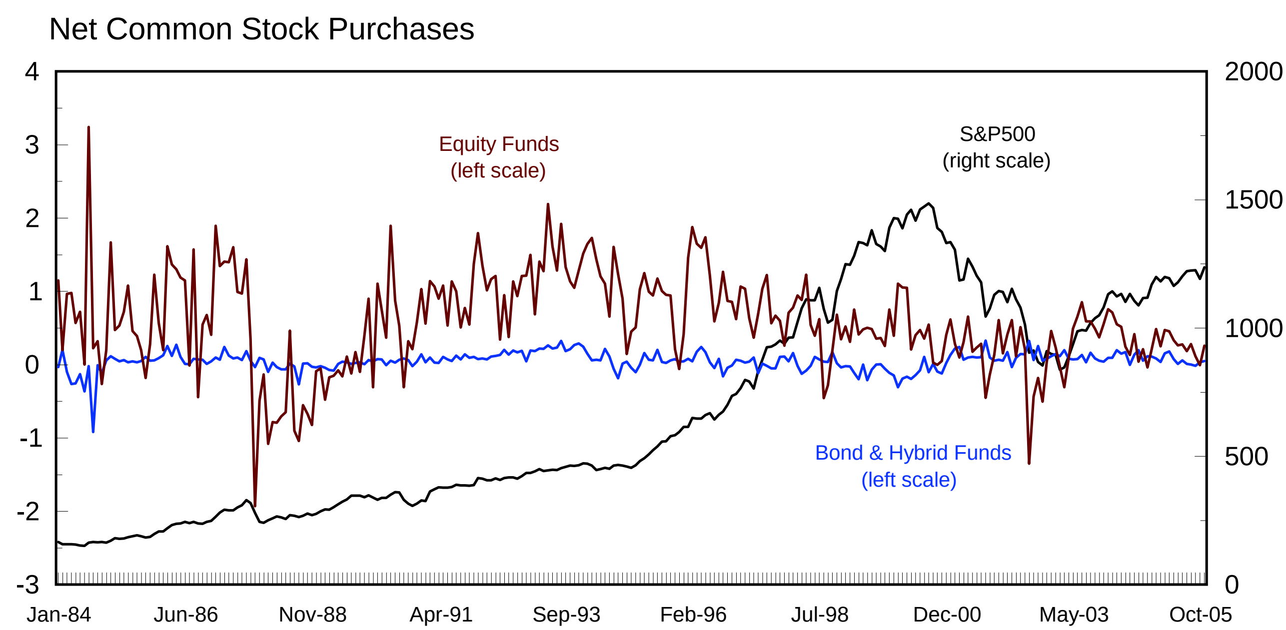


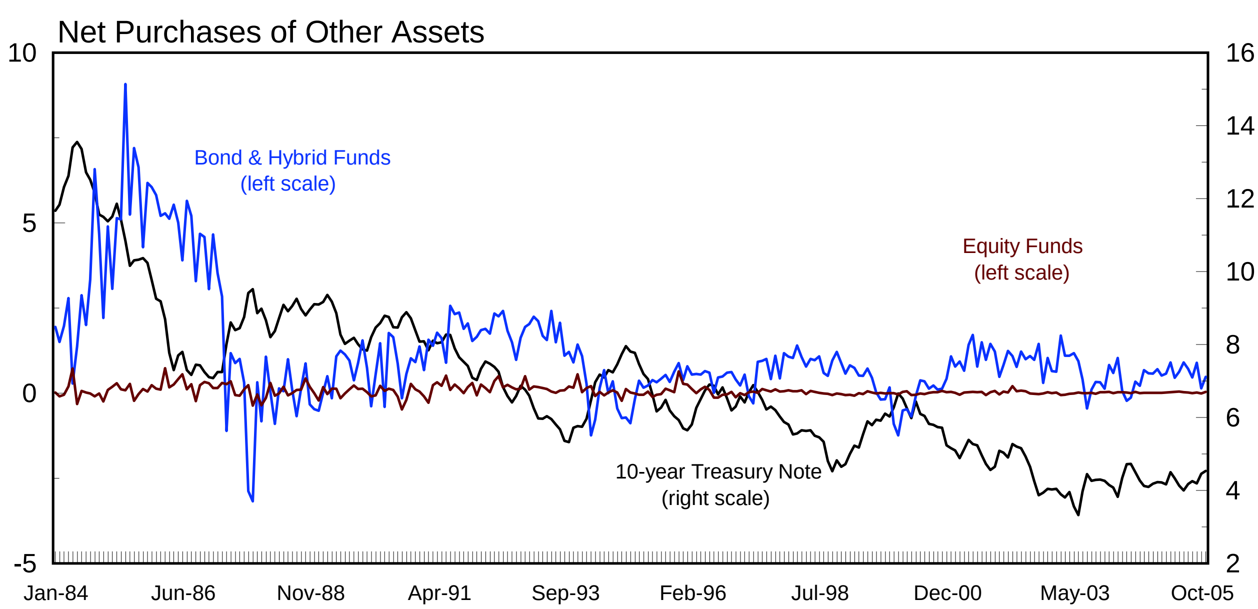

Source: Flow of Funds, Haver Analytics0

Figure 3

## Net Portfolio Purchases

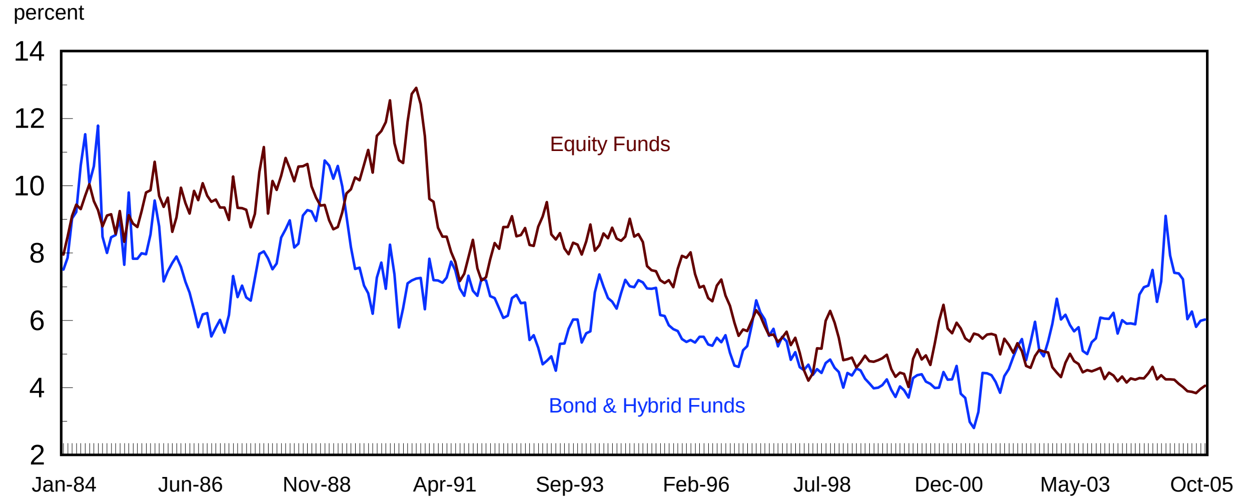
(percent of Total Assets)



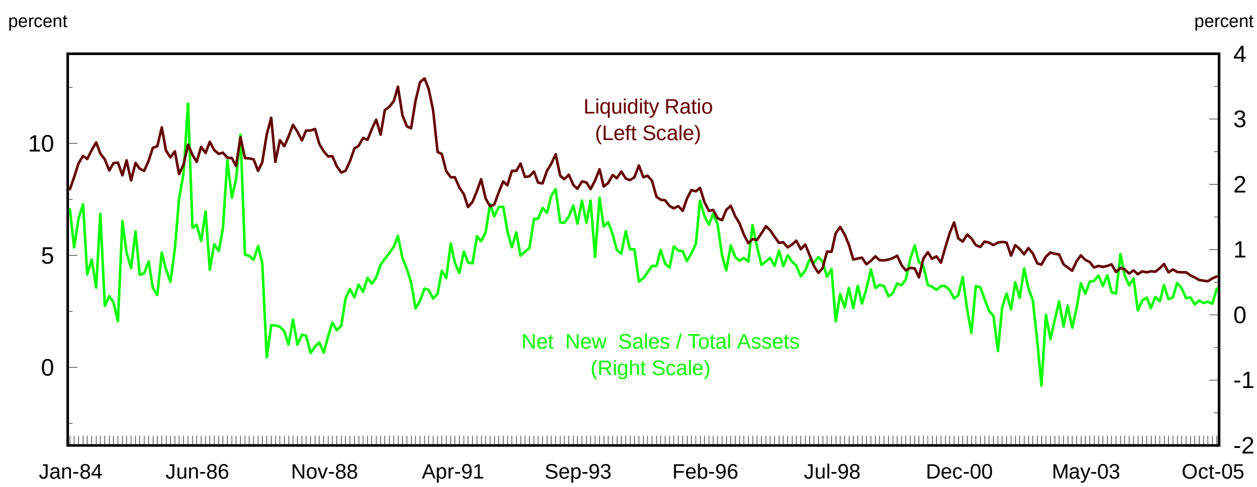




Source: Investment Company Institute

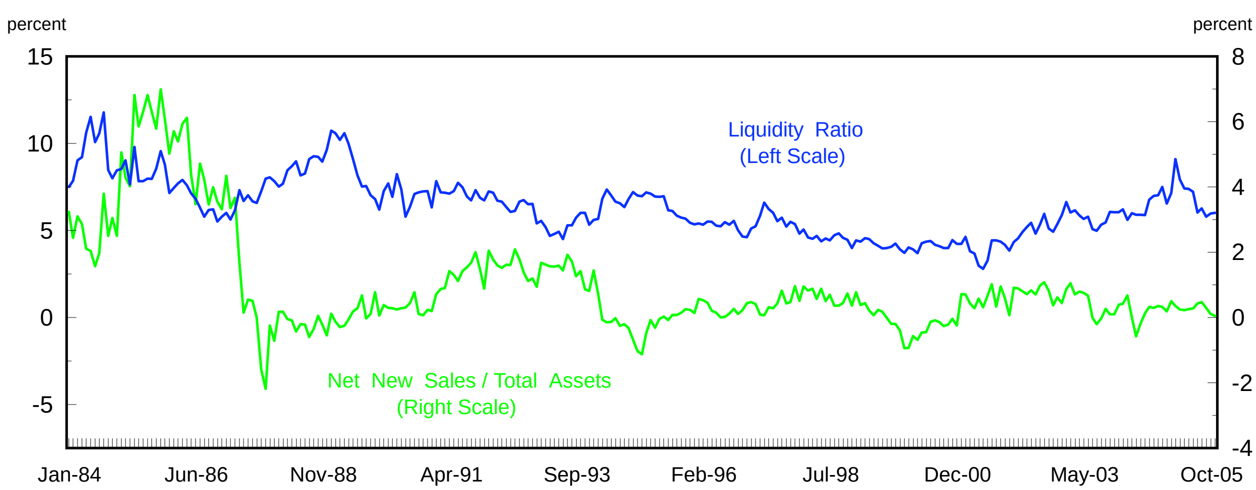
Figure 4
**Liquidity Ratio***




Equity Funds



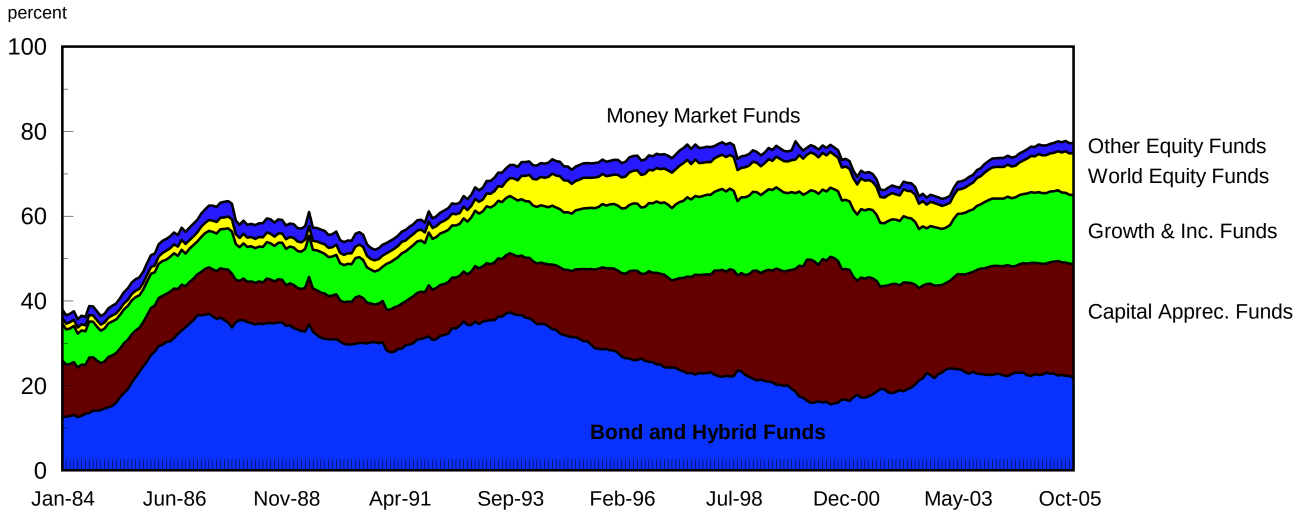

Bond & Hybrid Funds



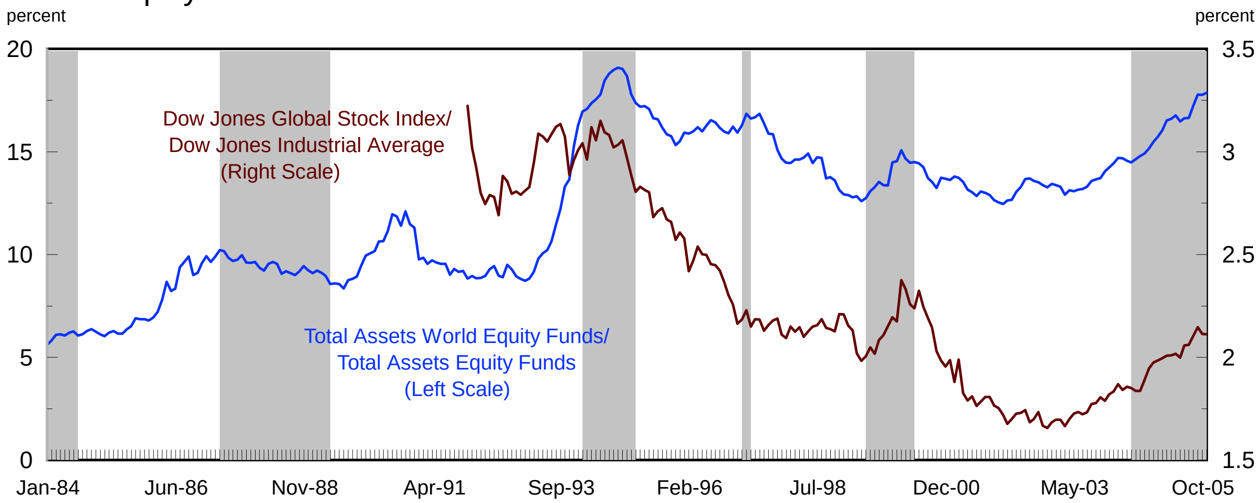

*The Liquidity Ratio is the Percent of Total Assets held in Cash and Short-Term Securities.

Source: Investment Company Institute

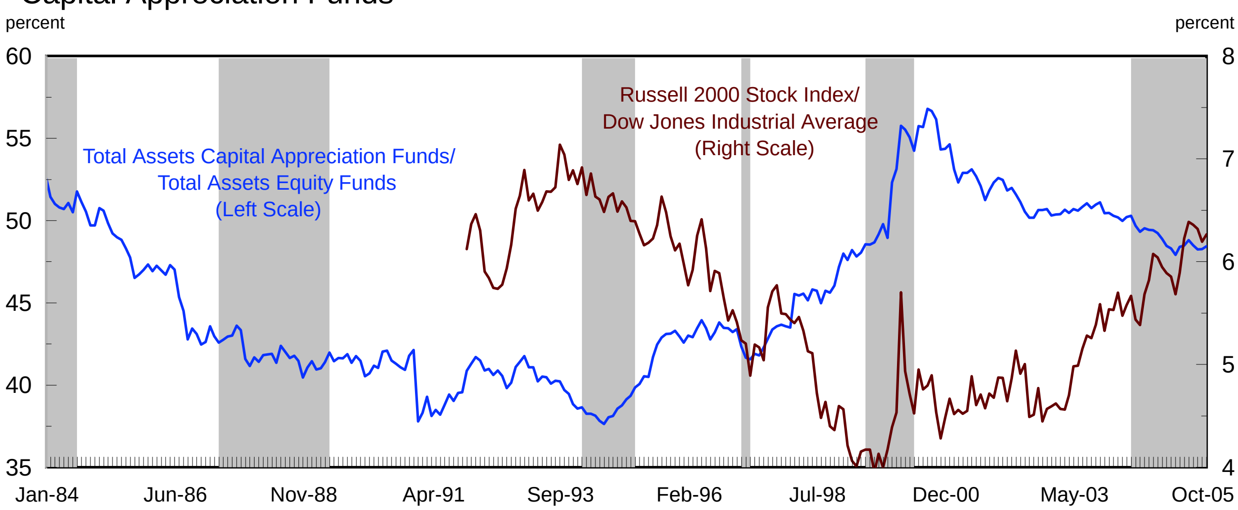
Figure 5
**Industry Composition**
(Shaded Regions Indicate Periods of Rising Fed Funds Rate)




World Equity Funds




Capital Appreciation Funds

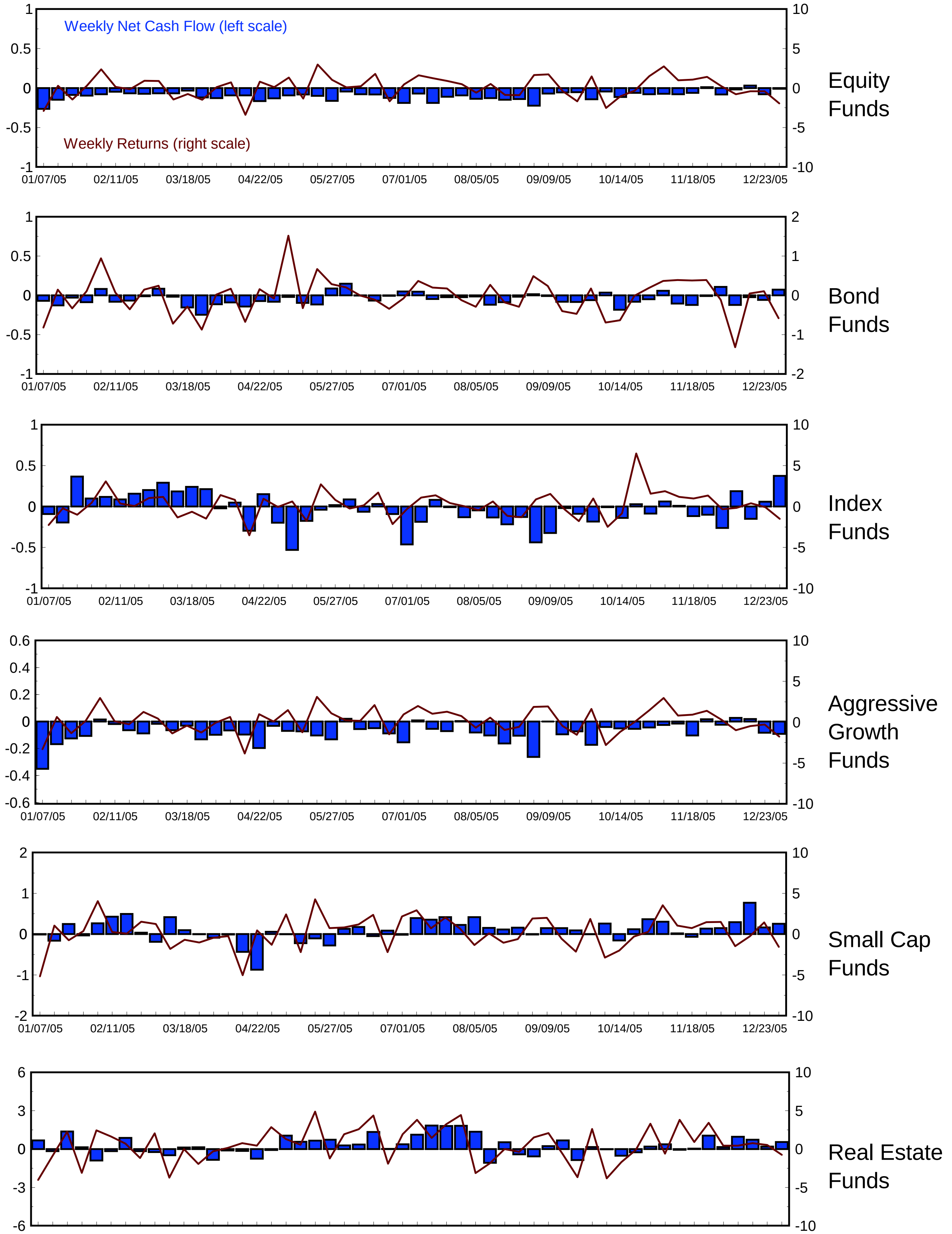



Source: Investment Company Institute

Figure 6a

**Weekly Flows into Mutual Funds**

(percent of Total Assets)

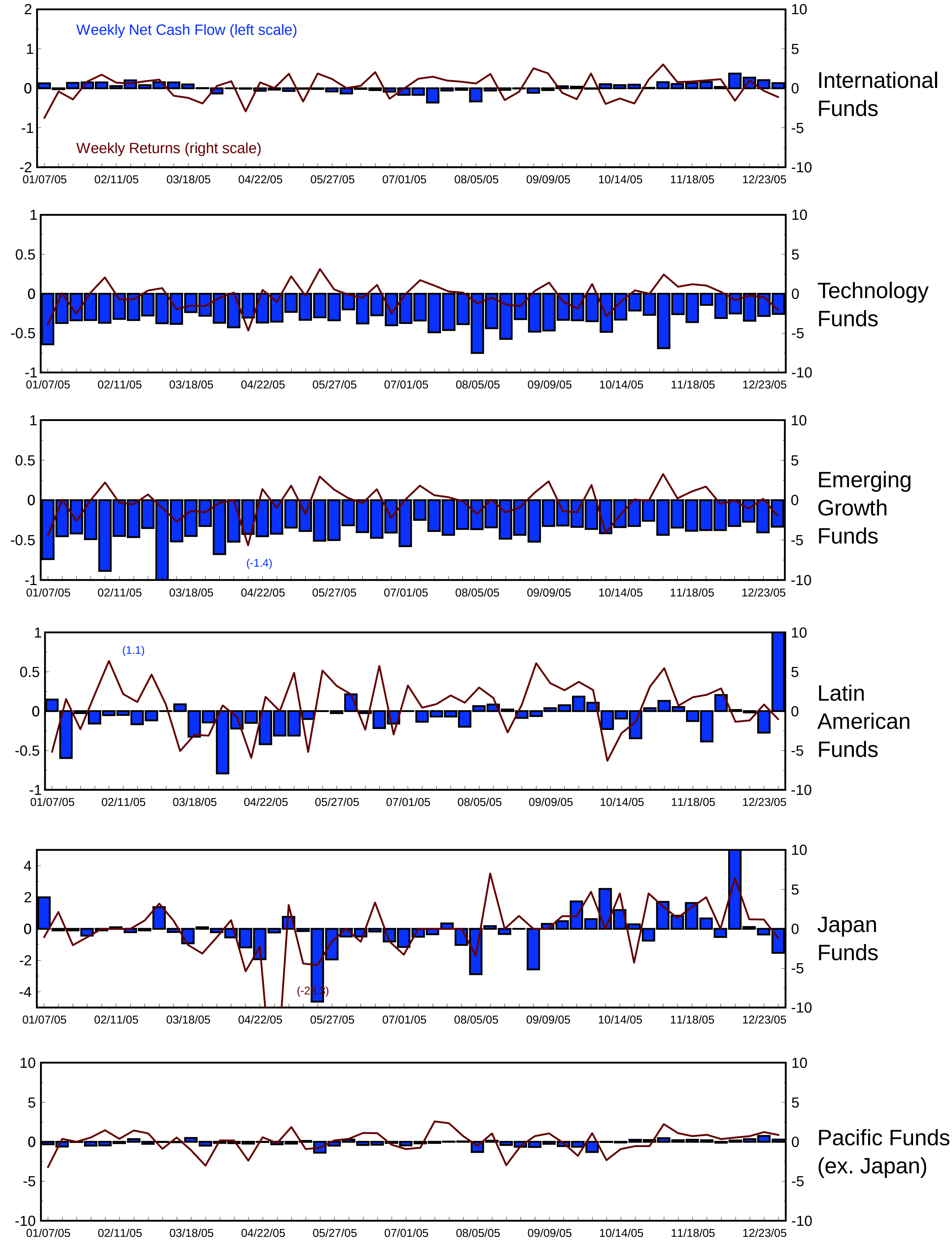



Source: Mutual Fund Trim Tabs

Figure 6b

**Weekly Flows into Mutual Funds**

(percent of Total Assets)

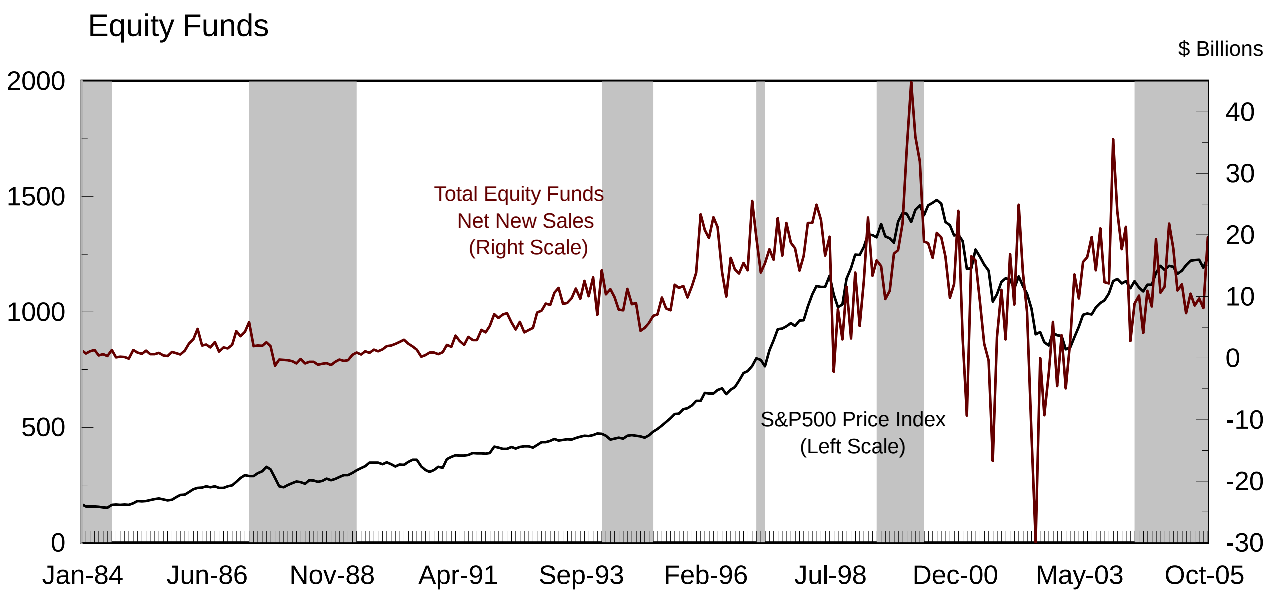


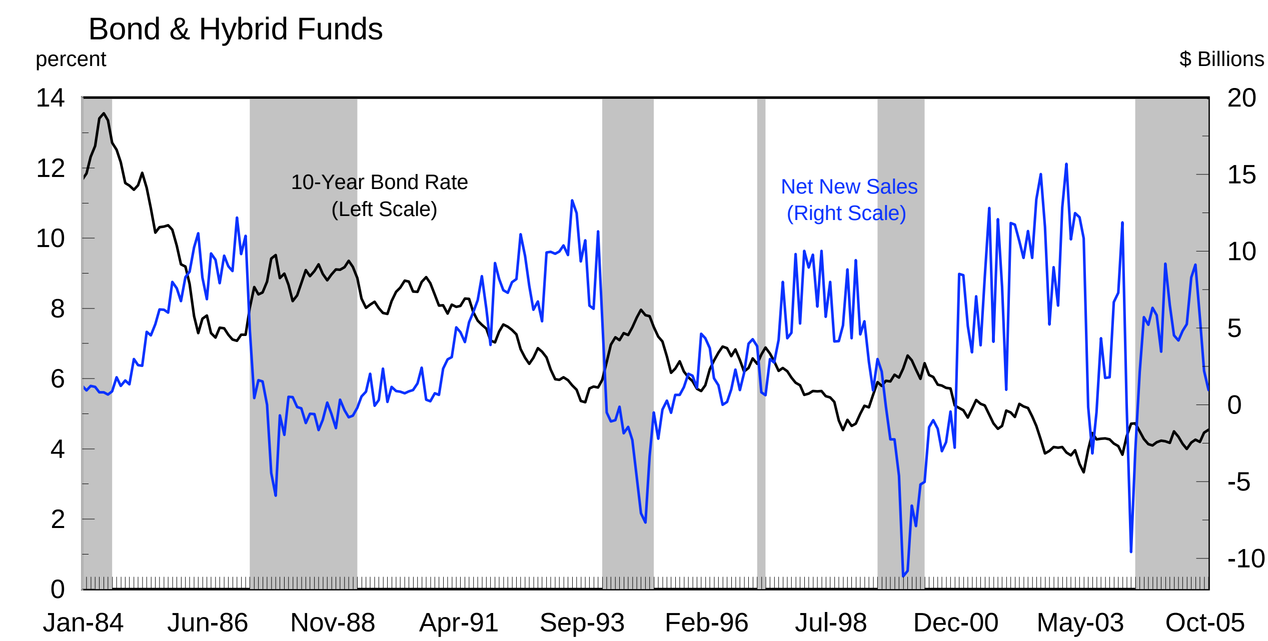

Source: Mutual Fund Trim Tabs

Figure 7

**Net New Sales By Investment Objective**

(Shaded Regions Indicate Periods of Rising Fed Funds Rate)

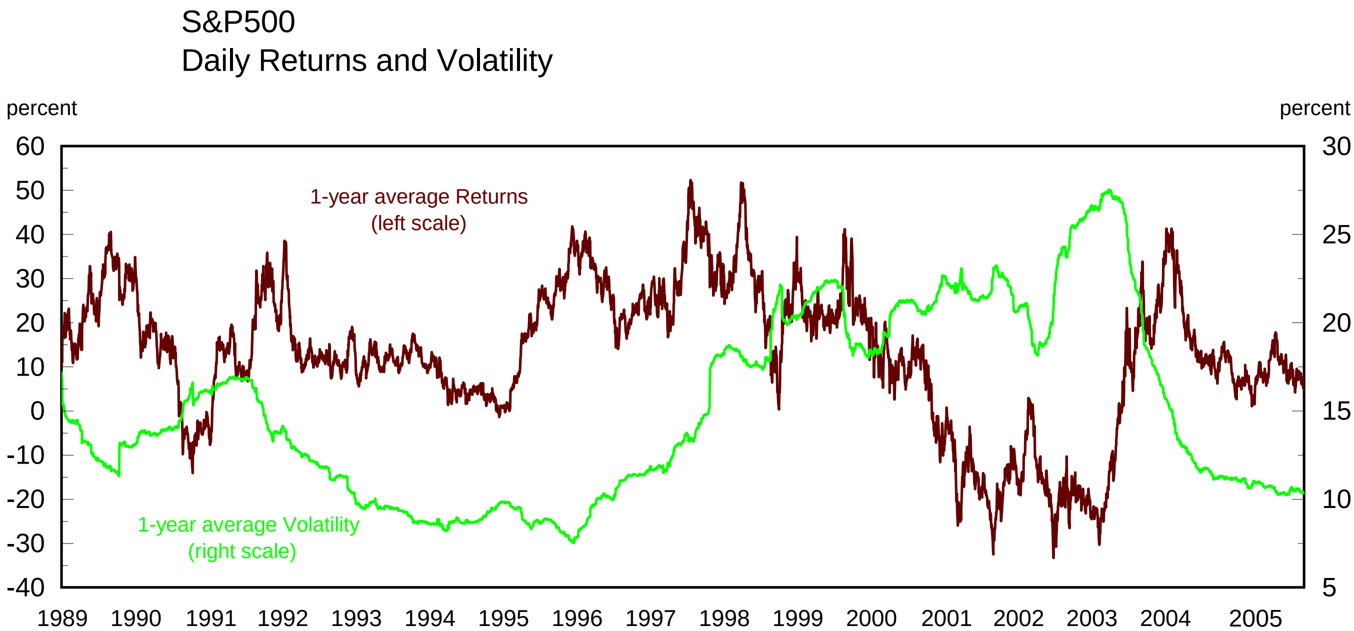


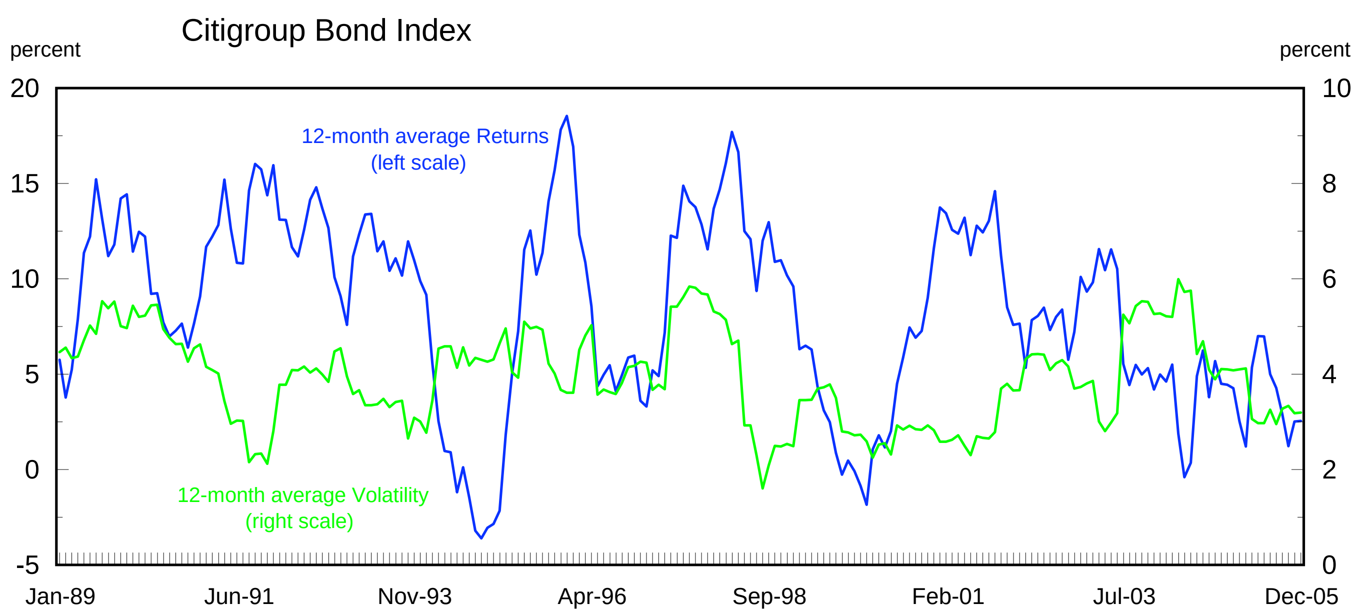




Source: Investment Company Institute

Figure 8

## Capital Market Returns and Volatility

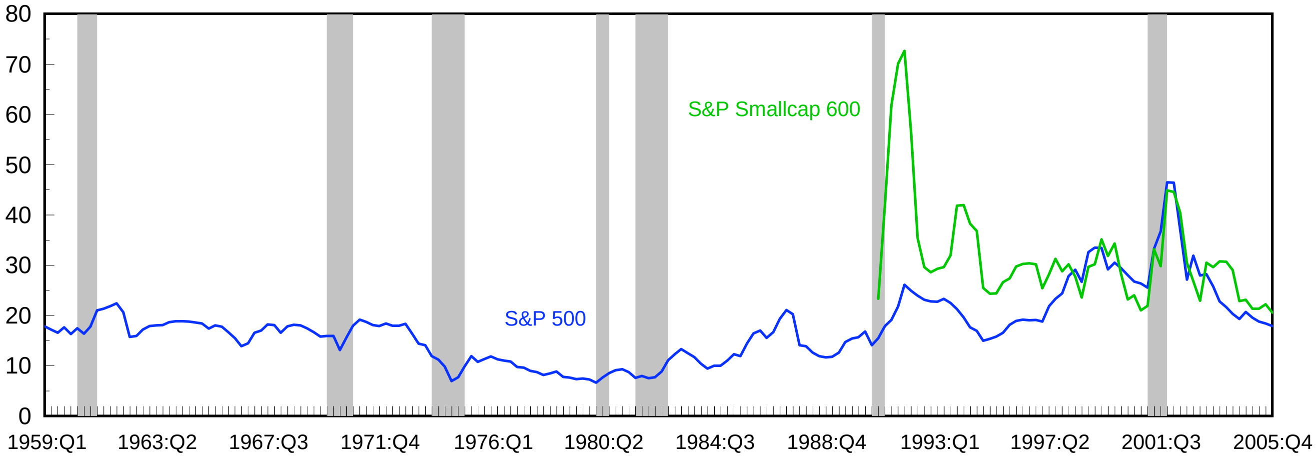


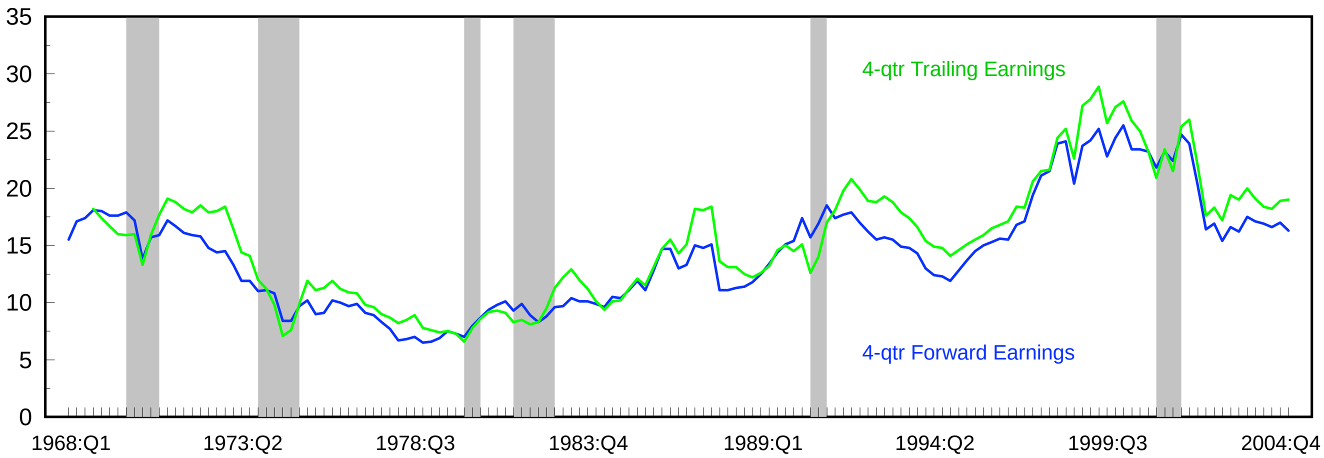

Source: FAME Database, Citigroup

Figure 9

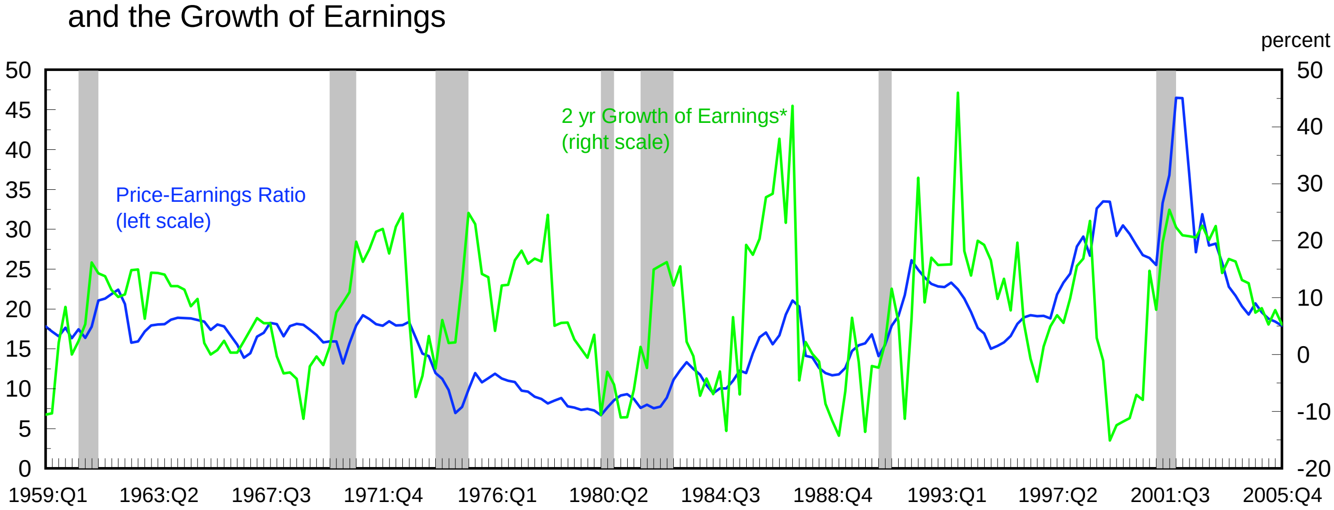
S&P Price-Earnings Ratios




S&P500 Price-Operating Earnings Ratio




S&P500 Price Earnings Ratio
and the Growth of Earnings

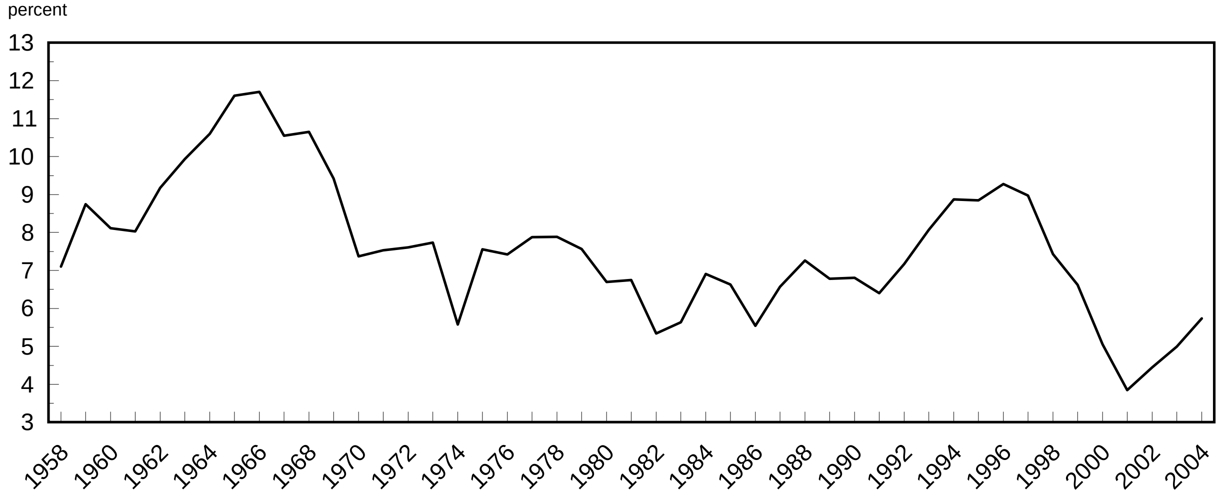



* Growth of earnings over subsequent 8 quarters. Current observations use forecast of earnings from macro projections.

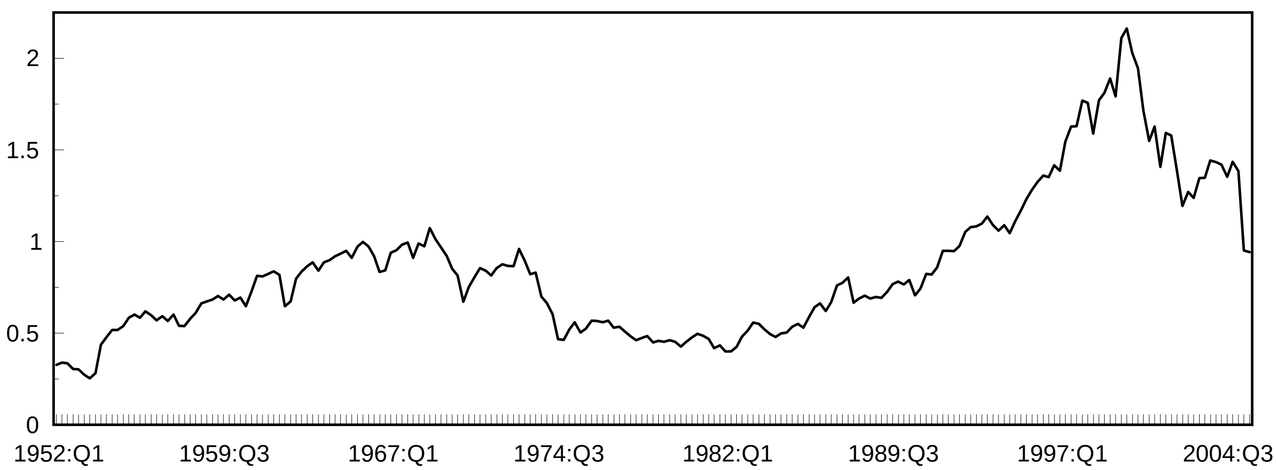
source: Thomson Financial/First Call, Global Exchange (formerly DRI), Bloomberg

Figure 10

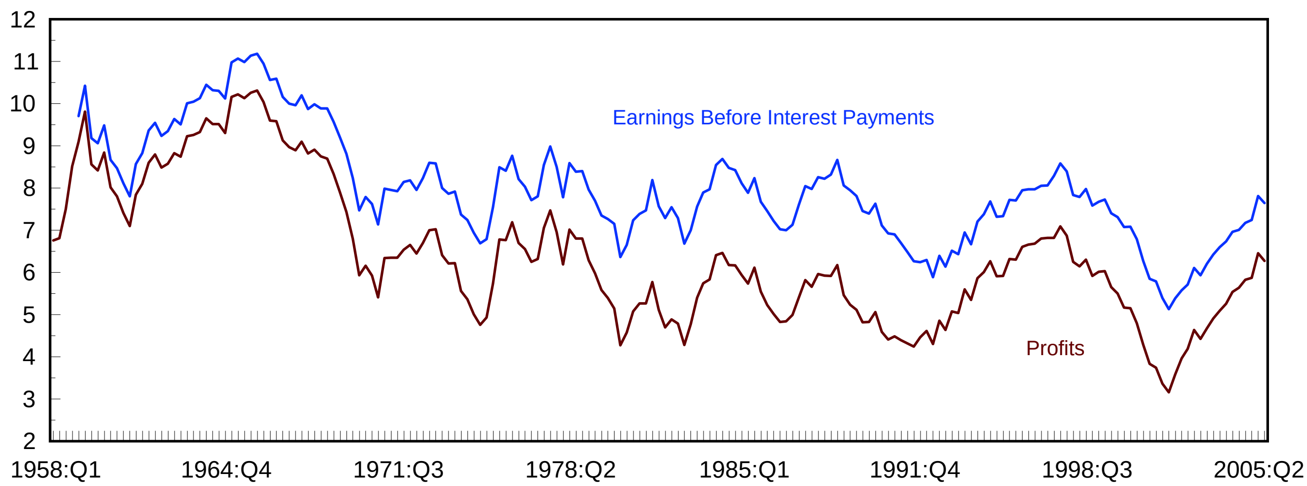
Real Rate of Return on Nonfinancial Corporate Equity
(from National Income and Flow of Funds Accounts)




Tobin's Q*




Profits of Nonfinancial Corporations
(percent of GDP)




* Market Value of Equity plus Net Interest Bearing Debt / Current value of Land, Inventories, Equipment, and Structures

Source: Flow of Funds, Haver Analytics